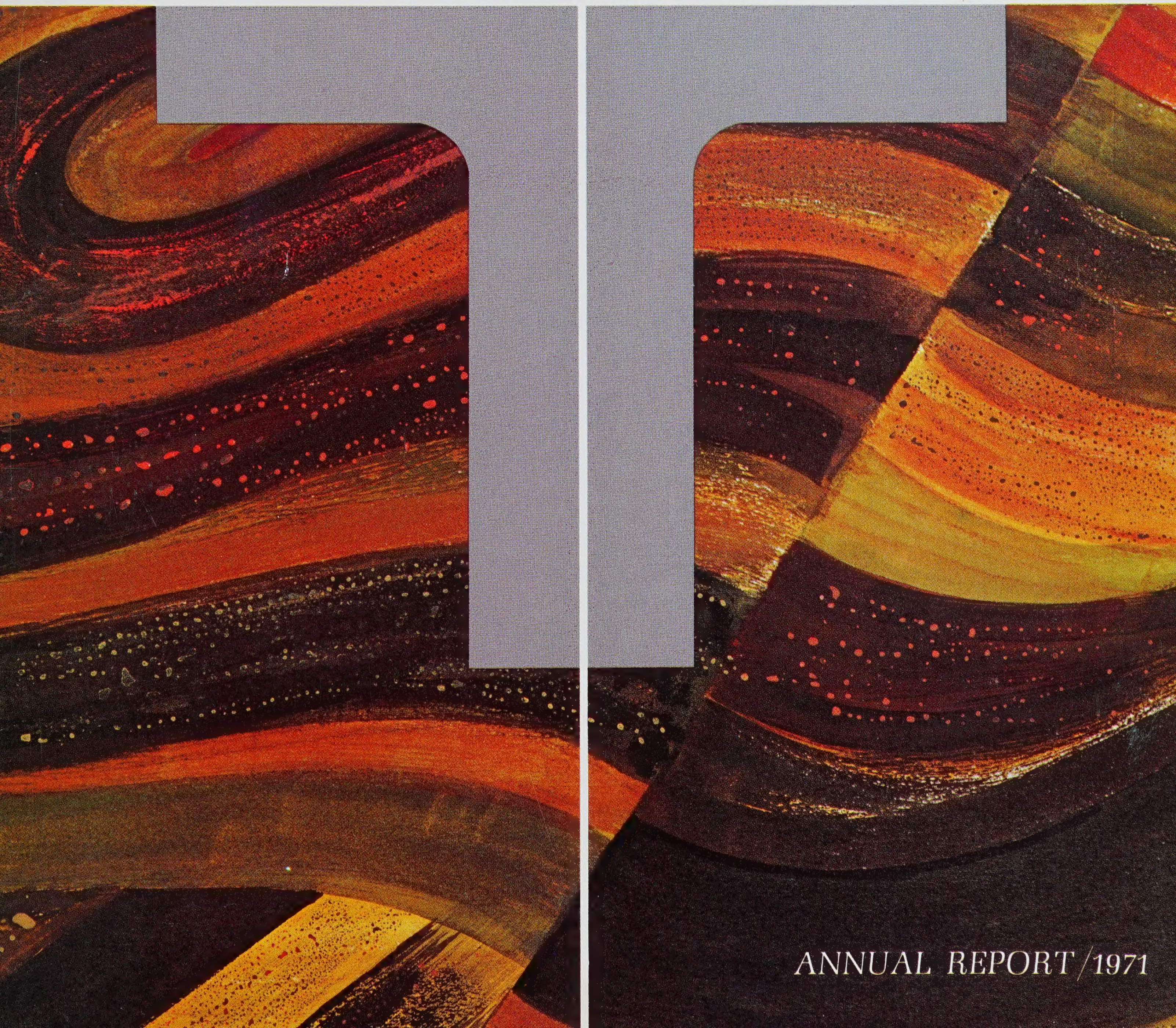
Trans-Canada Resources LTD.

Creating Energy Reserves



DIVISIONS

INTERNATIONAL DRILLING FLUIDS
310 Ninth Avenue S.W. Calgary, Alberta
31 Bressenden Place, London, S.W. 1 England

DYMAC EQUIPMENT
4119 17th Street S.E., Calgary, Alberta

RESEARCH AND DEVELOPMENT DIVISION
320 Ninth Avenue S.W., Calgary, Alberta

OIL AND GAS DIVISION
330 Ninth Avenue S.W., Calgary, Alberta

SUBSIDIARIES

TRANS-CANADA RESOURCES (US) INC.
402 North Division Street, Carson City, Nevada

TRANS-CANADA RESOURCES (UK) LTD.
1, Fredericks Place, Old Jewry, London E.C. 2, England

TRANS-CANADA EXPLORATION AND MINING LTD.
2236 Albert Street, Regina, Saskatchewan

DALHOUSIE INVESTMENTS LTD.
1055 West Hastings Street, Vancouver, B.C.

DIRECTORS

Grant A. Bloomer, Chairman of the Board,
Trans-Canada Resources Ltd., Vancouver, B.C.

Robert M. Zokol, Businessman, Vancouver, B.C.

G. Clinton Snell, Mining Executive, Vancouver, B.C.

Henry E. Hutcheon, Barrister and Solicitor,
Guild, Yule & Co., Vancouver, B.C.

Harry Frogley, Investment Dealer, Standard Securities,
Toronto, Ontario

Roger Kee Cheng, Businessman, Vancouver, B.C.

F. Leslie Croteau, Professional Engineer, Vancouver, B.C.

Aloke Bosu, President, Trans-Canada Resources Ltd., Vancouver, B.C.

OFFICERS

Aloke Bosu, President

Bruce Macdonald, Vice President, Operations

W. D. Hans, Vice President/Development

W. J. Sullivan, Secretary

John E. LeFevre, Treasurer

Oil and Gas Division

Cognizant of the continuous growth of energy requirements of North America, your Company has expanded its efforts both in production and exploration in the oil and gas sectors of Canada's resource industry.

Oil reserves were purchased in the Avon Hill, Dodsland, Buffalo Coulee, Parkman and Golden Spike areas and expanded through development drilling at Wayne Rosedale and Cantal. Net reserves at year end totalled 6,200,000 barrels, an increase of 10 per cent from the previous year. These reserves gave net production of 344 BOPD at year end, a 100 per cent increase from the previous year.

While participating in only three exploratory tests during the year, the Company was fortunate in two being completed as gas discoveries. Prospects for the coming year will lead to a much expanded program in an effort to further increase our reserves. Company land holdings at year end stood at 7,222,653 gross, 603,359 net acres.

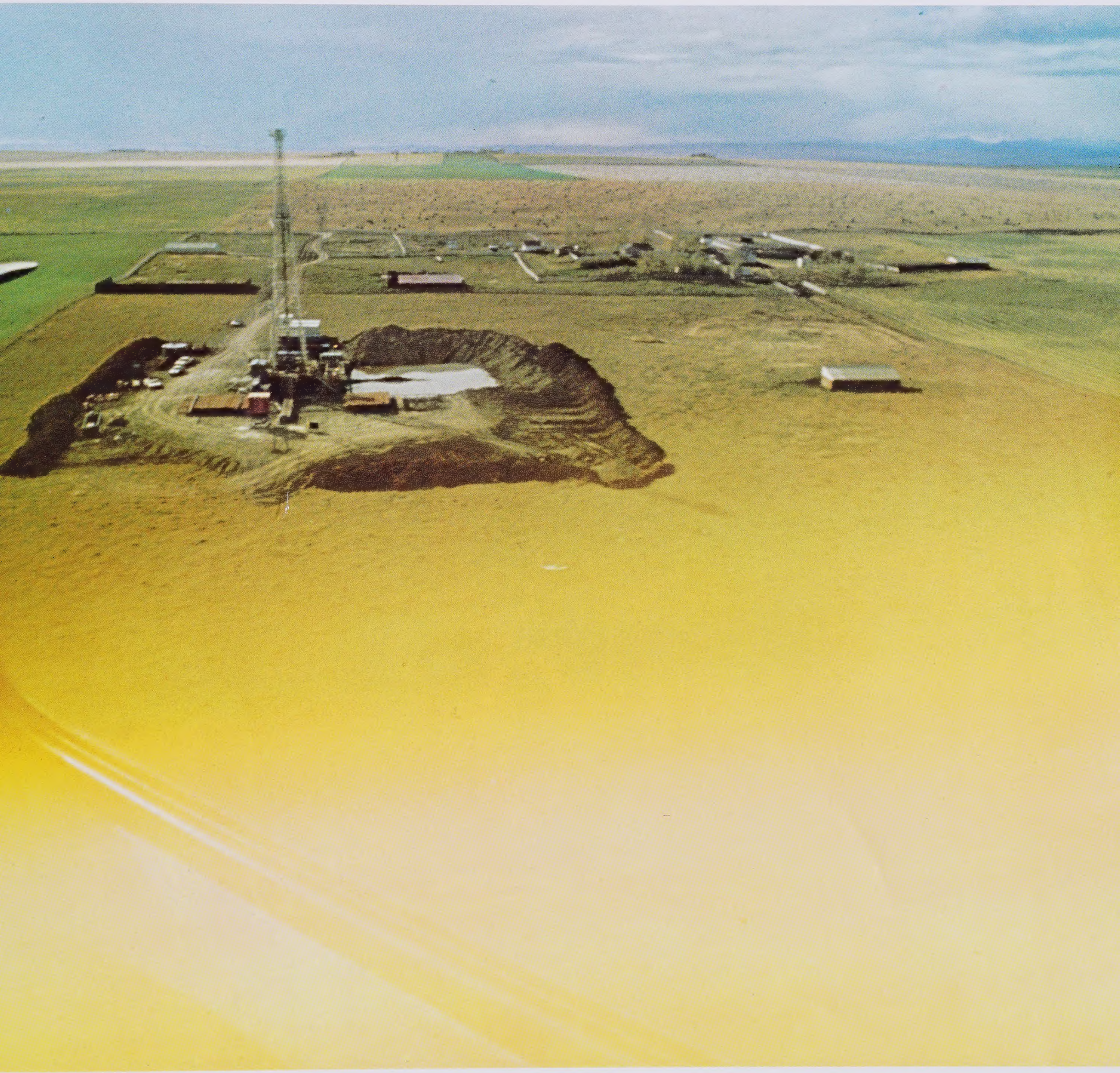
While expanding activity, we do not enter competitive bidding for oil leases.

International Drilling Fluids

This autonomous division of the Company has continued its operations at a favorable level during the past year with gross cash flows meeting expectations despite decreased drilling activity. The excellent record of service and expertise that brought International Drilling Fluids to its position as the top Canadian drilling fluid organization remains unchallenged.

International Drilling Fluids' operations range from Canada's Far North to the expanded activity off the East Coast. Backed by a capable Research team, International Drilling Fluids continues to create a new technology to assist the drilling segment of the oil industry.

With its recent arrival on the European scene, International Drilling Fluids brings to the European drilling industry the benefits of its experience which have been so well received in Canada.



Dymac EQUIPMENT

Headquartered in Calgary, Alberta, Dymac Equipment is one of the most recently established divisions of the Company. It was created to provide a special service to the oil industry in the sales and rentals of the kinds of equipment used by drilling contractors in the field. This supply function, fulfilling immediate or short range equipment needs, is an important requirement in nearly all drilling operations.

In a comparatively short period of time Dymac has assembled a substantial inventory and offers to the industry a wide variety of drilling equipment.

Dymac can be expected to make a significant contribution to the Company and to the Company's ability to more fully serve its clients and the industry.

Research and Development

Invention and innovation are important driving forces in a modern economy and world-wide economic progress stems in large measure from increased productivity based on new technology. The prevailing climate of rapid technological change and increasing competition on both the domestic and international levels dictates that a successful organization must maintain an ever-expanding research and development effort.

Your Company's Research and Development organization maintains a continual program focusing fully on problems relating to the Petroleum Industry. The large, modern laboratory is staffed by a qualified research team.

Technical assistance is provided to the chemical industry. Joint effort is also carried on with research groups in oil companies, universities and independent laboratories. Research and Development have introduced a number of new products and new systems that are currently being used to solve many drilling problems and are marketed internationally.

Patents are pending on a number of chemical products and techniques. Government Research Grants are continuously being awarded to assist Research and Development in its research program.

CONSOLIDATED BALANCE SHEET

As at October 31, 1971
Trans-Canada Resources Ltd. and Subsidiary Companies

ASSETS

	As at October 31 1971	1970 (Note 14)
Current assets:		
Cash — Note 5	$ 112,304	$ 39,384
Marketable securities, at market value which is less than cost	268	9,677
Accounts receivable	626,060	543,675
Note receivable	—	150,000
Inventories, at the lower of cost or net realizable value	630,676	449,169
Oil and gas leases and properties held for resale, at cost — Note 2	197,240	—
Prepaid expenses	29,511	4,965
	1,596,059	1,196,870
Other assets (Note 2):		
Claim development deposits	10,026	50,463
Sundry investments, at cost	1,050	1,050
	11,076	51,513
Capital assets:		
Oil, gas and mineral properties, at cost including exploration and development costs less depletion in 1971 of $12,503 — Note 2	2,497,884	2,117,339
Plant and equipment at cost, less accumulated depreciation of $145,767 (1970 — $96,284)	513,621	283,138
Patents and processes, at cost — Note 3	138,750	—
Land, at cost	5,690	950
	3,155,945	2,401,427
Deferred costs:		
Cost of acquiring International Drilling Fluids Division, in excess of underlying asset values, less amounts amortized	260,367	274,967
Organization costs	9,909	8,519
Other deferred costs — Note 4	170,520	104,029
	440,796	387,515
	$5,203,876	$4,037,325

APPROVED ON BEHALF OF THE BOARD:

F. L. CROTEAU, Director

GRANT BLOOMER, Director

LIABILITIES

	As at October 31 1971	1970 (Note 14)
Current liabilities:		
Bank loan — Note 5	$ 350,000	$ 286,208
Accounts payable and accrued liabilities	874,692	709,132
Current portion of long-term debt	165,206	126,727
	1,389,898	1,122,067
Long-term debt:		
Bank loans — Note 5	567,500	—
Provision for employee bonuses — Note 6	78,333	78,333
8% debenture — Note 7	52,620	166,120
Other secured liabilities	106,974	13,227
	805,427	257,680
Less: Current portion included above	165,206	126,727
	640,221	130,953
Deferred income taxes — Note 12	104,000	62,000

SHAREHOLDERS' EQUITY

Share capital:
Authorized —
5,000,000 shares without nominal or par value
Issued and fully paid — Note 8

	Number of shares 1971	Number of shares 1970	1971	1970
At beginning of year	2,385,884	2,312,502	2,676,485	2,573,751
During year — for services	104,440	—	94,000	—
— for property	152,993	73,382	214,191	102,734
At end of year	2,643,317	2,385,884	2,984,676	2,676,485

Contributed surplus:		
Proceeds on sale of the share warrants — Note 9	13,500	13,500
Retained earnings	71,581	32,320
	3,069,757	2,722,305
Commitments and contingent liabilities— Note 10		
	$5,203,876	$4,037,325

CONSOLIDATED STATEMENT OF EARNINGS

Trans-Canada Resources Ltd. and Subsidiary Companies

	Year ended October 31 1971	1970 (Note 14)
Income:		
Sales and other operating revenues	$2,916,973	$3,183,227
Income from investments	5,811	12,699
Gain on sale of capital assets	14,997	—
Other	17,504	7,693
	2,955,285	3,203,619
Costs and expenses:		
Cost of sales, administration and selling expenses — Note 11	2,607,021	2,726,776
Interest on long-term debt	2,370	4,730
Other interest	31,265	13,976
Depreciation, depletion and amortization	93,158	73,009
Abandoned properties written off	140,210	63,503
Loss on disposal of investments and capital assets	—	59,644
	2,874,024	2,941,638
Earnings for the year before deferred income taxes	81,261	261,981
Deferred income taxes	42,000	62,000
Earnings for the year Notes 12 and 14	$ 39,261	$ 199,981
Earnings per share — Note 13	2c	9c

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended October 31 1971	1970 (Note 14)
Retained earnings (deficit) at beginning of year as restated — Note 14	$ 32,320	$ (167,661)
Earnings for the year	39,261	199,981
Retained earnings at end of year	$ 71,581	$ 32,320

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Trans-Canada Resources Ltd.
and Subsidiary Companies

	Year ended October 31 1971	1970 (Note 14)
Funds provided by:		
Earnings for the year	$ 39,261	$ 199,981
Expenses not requiring a current outlay of funds—		
Abandoned properties written off	140,210	63,503
Provision for employee bonuses	94,000	78,333
Depreciation, depletion and amortization	93,158	73,009
Deferred income taxes	42,000	62,000
Loss on disposal of capital assets and investment in 40%-owned company	—	60,539
	408,629	537,365
Increase in bank and other long-term indebtedness	674,474	—
Oil and gas leases and properties held for resale included in current assets — Note 2	197,240	—
Proceeds from sale of capital assets (net of profit of $14,997)	59,640	68,545
Claim development deposits recovered	7,740	26,114
Repayment of note receivable	—	150,000
	1,347,723	782,024
Funds applied to:		
Oil, gas and mineral properties acquired and exploration and development costs incurred, net of properties acquired by issue of shares	520,185	1,213,834
Increase in other deferred costs and patents and processes	205,241	104,029
Additions to fixed assets	319,603	140,573
Repayment of long-term indebtedness	165,206	113,500
Other	6,130	3,953
	1,216,365	1,575,889
Increase (decrease) in working capital	131,358	(793,865)
Working capital at beginning of year	74,803	868,668
Working capital at end of year	$ 206,161	$ 74,803

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 1971
Trans-Canada Resources Ltd. and Subsidiary Companies

1. CONSOLIDATED FINANCIAL STATEMENTS – The consolidated financial statements include the financial statements of Trans-Canada Resources Ltd. and all its subsidiary companies.

2. OIL, GAS AND MINERAL PROPERTIES – Up to and including the year ended October 31, 1970 the company capitalized and included in capital assets, all of its interests in oil, gas and mineral properties together with related exploration and development costs and a portion of administration costs. During the year ended October 31, 1971 the company began trading certain oil and gas properties and those which are still held for trading are included in current assets in the year ended October 31, 1971. In 1970 similar properties were included in capital assets in the amount of $139,627 and in other assets in the amount of $32,697.

As in prior years, oil properties which are unlikely to be so traded and mineral properties are carried forward in capital assets and amortized against earnings of producing properties. Costs relating to properties which are abandoned or determined to have no prospect of economically recoverable resources are written off.

The amount shown in capital assets for oil, gas and mineral properties, including exploration and development costs, represents costs to date and is not intended to reflect present or future values.

3. PATENTS AND PROCESSES – The company's research and development division has developed certain patents and processes and the costs applicable thereto have been capitalized. The amount will be amortized over a ten-year period commencing in the year ending October 31, 1972.

4. OTHER DEFERRED COSTS – Other deferred costs include start-up costs of $132,394 and the research and development division's costs, net of government grants, which have not yet been capitalized as patents and processes in the amount of $38,126. The deferred start-up costs relate to new areas of interest being pursued by the company and will be written off over five years commencing in the year ending October 31, 1972. The deferred costs of the research and development division will be written off to earnings if no patent or process is developed.

5. BANK LOANS – The bank loans as at October 31, 1971 are as follows:

Current – payable on demand	$350,000
Long-term:	
Term loan	$445,000
Special term loan	122,500
	$567,500

The loans, which bear interest at rates from 1% - 1½% above prime rates, are secured by a general assignment of accounts receivable, a portion of inventories, certain capital assets and a floating charge debenture in the amount of $2,000,000. The loans included in long-term debt are repayable over a period of five years in semi-annual instalments of $70,000. Included in the loan of $122,500 is an amount of $32,500 which was drawn down by the company during December 1971. The loan was approved by the bank prior to October 31, 1971 and was obtained with respect to an acquisition which was paid for in cash by the company prior to the year end pending the completion of certain documentation required before the bank was prepared to advance funds under the loan agreement.

6. PROVISION FOR EMPLOYEE BONUSES – The company entered into contracts with certain employees on January 3, 1971, under which the company is committed to pay these employees amounts aggregating $94,000 on January 3 each year for the period 1971 to 1975. The agreements provide for these payments to be made either in cash or by the

issue of notes, at the company's option. Such notes would bear interest at 3% per annum, would mature 15 years after issue and would be convertible into shares within 60 days of issue at a price related to quoted market price.

7. 8% DEBENTURE – This debenture is repayable on September 3, 1972 and is secured by a first floating charge on the company's assets. The company has obtained long-term financing from the bank to meet this liability and the amount outstanding is therefore included in long-term debt.

8. STOCK OPTIONS – As at October 31, 1971 options were outstanding for the purchase of 30,000 common shares in each of the next three years at prices of $2.50 and $4.00 per share, and two options were outstanding for the purchase of up to 7,500 shares each per year cumulatively at $1.50 per share over five- and ten-year periods subject to the approval of various stock exchanges. No options were exercised during the year.

9. SHARE WARRANTS – As at October 31, 1971 135,000 share warrants had been issued and remained outstanding. Each warrant carries the right to purchase one share at a price of $4.00 on or before February 15, 1972.

10. COMMITMENTS AND CONTINGENT LIABILITIES –

(i) The company leases its divisional and head office premises under agreements which require rental payments aggregating $8,855 and $55,515 for the periods to March 31, 1972 and August 31, 1974 respectively.

(ii) Under the terms of certain joint venture and other agreements, the company is committed to participate in the acquisition and exploration and development of certain properties.

(iii) During the year ended October 31, 1971 two legal actions were brought against the company, one of which is not being proceeded with. The other, in the amount of $185,000 plus interest and costs, which Alberta counsel for the company has indicated will not be successful, is being contested by the company and a counter-claim for a substantial amount has been filed.

11. REMUNERATION OF OFFICERS AND DIRECTORS – Remuneration of officers for the year ended October 31, 1971 aggregated $62,447 (1970 - $65,800) of which $26,650 relates to an officer who is also a director (1970 - $51,400 for two officers).

12. INCOME TAXES: For income tax purposes, the company is entitled to claim lease acquisition, exploration and producing well costs and capital cost allowances (depreciation) in excess of the related depletion, amortization and depreciation reflected in its accounts. As a result, income taxes otherwise payable for the year have been eliminated.

The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. The company, in common with many other companies in the Canadian oil and gas industry, believes that tax allocation in respect of lease acquisition, exploration and development costs is not appropriate and this position is accepted by accounting authorities outside Canada. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs for the year ended October 31, 1971. If the tax allocation basis had been followed for these costs, net income for the year would have been reduced by approximately $18,000 ($134,000 in 1970) and the accumulated effect amounts to approximately $152,000 at October 31, 1971.

Deferred income taxes have been provided with respect to timing differences other than those referred to in the preceding paragraph. Of the total provided at October 31, 1971, $62,000 is applicable to the year ended October 31, 1970 and the earnings of that year have been restated accordingly.

13. EARNINGS PER SHARE – Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year.

No dilution in the earnings per share in 1971 would have resulted if all the share purchase warrants and stock options outstanding in Trans-Canada Resources Ltd. were exercised and earnings were imputed on the basis of the proceeds therefrom being used to reduce the company's bank loans.

14. PRIOR PERIOD ADJUSTMENTS – As a result of matters which came to management's attention after the issuance of the financial statements for the year ended October 31, 1970, the balance of retained earnings at that date has been restated to show retroactive adjustments of $77,860 and, in addition, an adjustment has been made in respect of deferred income taxes in the amount of $62,000, see Note 12.

Price Waterhouse & Co.

chartered accountants

AUDITORS' REPORT

February 21, 1972

To the Shareholders of
Trans-Canada Resources Ltd.:

We have examined the consolidated balance sheet of Trans-Canada Resources Ltd. and subsidiary companies as at October 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1971 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

The year ended October 31, 1971 has been an eventful year for the Company with progress being made in areas that will ensure a continuity of earnings. Of the many events all designed to contribute to the stability and growth of your Company, the following can be considered as "Highlights":

(a) Dymac Equipment was started in February, 1971 to further expand our Service to the Oil Industry.

(b) Demand and Term Loan financing was arranged up to $1,500,000 to ensure adequate working capital.

(c) Acquisition of interests in Avon Hill, Dodsland, Buffalo Coulee, South Parkman and Golden Spike to the Company's oil production.

(d) International Drilling Fluids commenced operations in the United Kingdom to participate in giving service to the expanded Drilling activity in the North Sea.

(e) Participation in a significant gas discovery at Enchant.

(f) Working Capital up to $206,161 as compared with $74,803 at the end of the previous year.

(g) Gross Assets up to $5,203,876 as compared with $4,037,325 at the end of the previous year.

(h) Oil Reserves of 6,200,000, an increase of approximately 10% over the previous year.

(i) Production of 340 barrels per day as compared with 170 barrels per day at the end of the previous year. This is an increase of 100%.

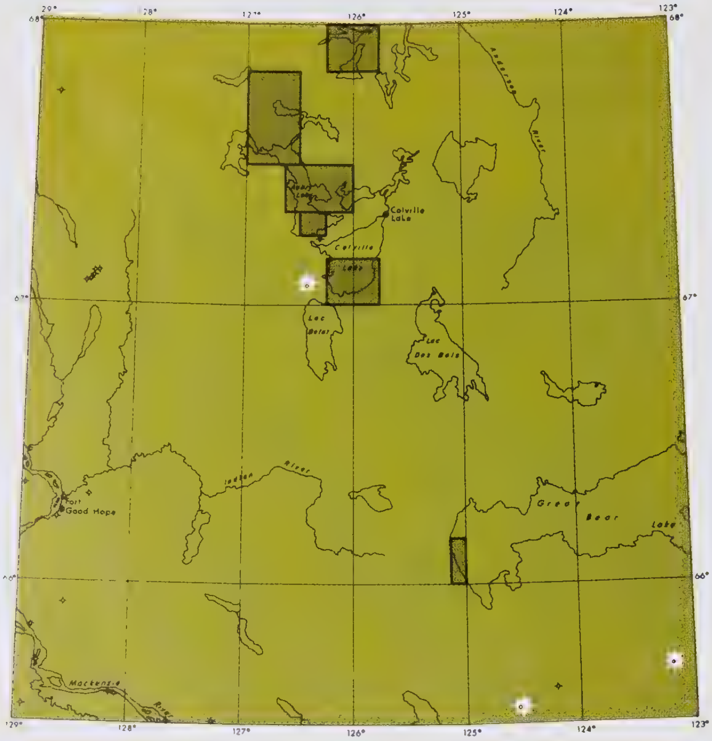
(j) Shareholders' equity including deferred income taxes amounts to $1.20 per share based on *book* values.

Promise of the Future

The year 1971 has contributed to laying the foundations for future stable growth. This growth and the future activities of the Company will be based largely on how the Company presently positions itself.

We have spent the past year positioning our land plays into areas of near-term activity. These plays have been carefully chosen to give your Company exposure to oil as well as gas exploration.

There are too many of these activities to display fully – what is shown on the following pages represents some of the choice areas of activity the Company is participating in.



COLEVILLE AREA
Northwest Territories, Canada

FORT NORMAN AREA
Northwest Territories, Canada

Search for Oil

The search for oil reserves in Canada has moved dramatically to the frontier areas of Canada's northern mainland, the Arctic Islands and the offshore areas. Your Company participates in these areas through interests in large acreage blocks offshore on the East Coast of Canada and Hudson Strait and Melville Sound in the northern areas.

We have strongly pressed our exploration effort in Canada's north on the belief that nearly half of Canada's remaining petroleum potential lies north of 60°. In this regard your Company now holds an interest in 1.6 million gross acres of Crown P. & N.G. permit rights in the Northwest and Yukon Territories.

In the Coleville area we retain a carried interest in 664,428 gross acres under which a group of companies has committed to spend up to 1.7 million dollars on exploration. This exploration has commenced with one seismograph crew active on the lands.

In the Fort Norman area of the highly prospective Mackenzie River basin, your Company has acquired a royalty interest in 570,591 gross acres. There are presently two 10,000′ Silurian-Ordovician tests drilling on portions of this acreage and several other tests drilling in the vicinity.

We are actively pursuing additional acquisitions in this vast (250,000 square mile) area which has sediments for potential reserves of at least 14 billion barrels of oil and in which competitive exploration effort is rapidly expanding.

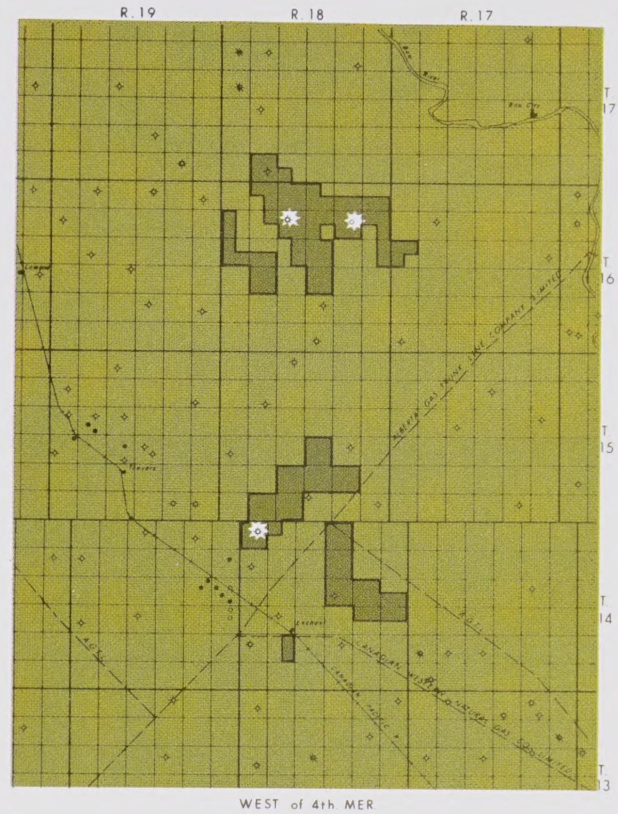
Search for Gas

The search for natural gas in Western Canada has intensified to meet the demands of the growing energy market. While the search in the foothills areas with its large reserves has slowed due to high drilling and plant costs, the shallow areas of cheaper drilling and easier marketability have more than filled the gap.

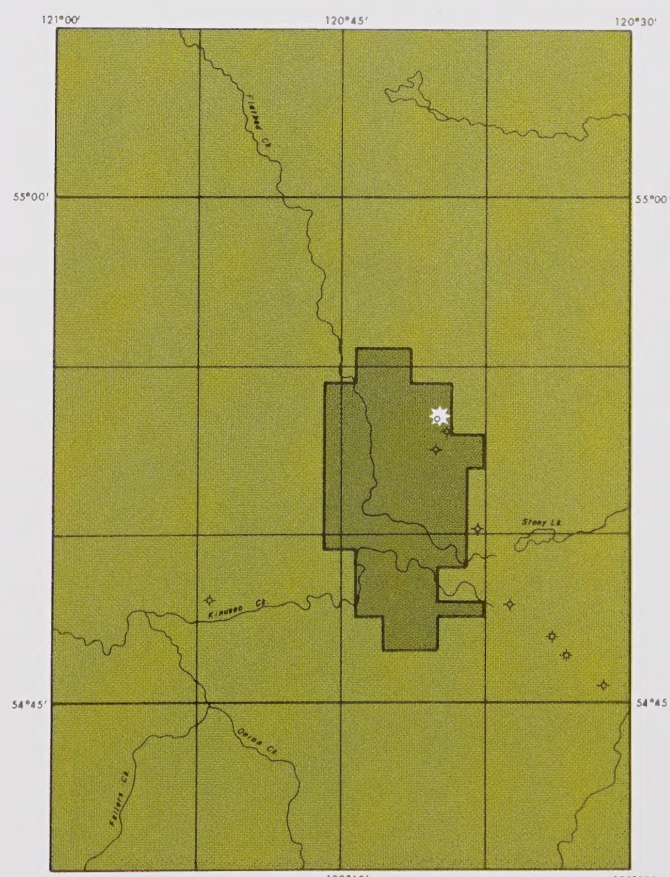
In the Enchant area of southern Alberta your Company participated in the drilling of three test wells resulting in two shut-in gas wells and one dry hole. These tests earned the Company varying interests in 18,000 acres with future drilling planned to further evaluate the prospects.

In the Monkman Pass area of north-eastern B.C. your Company has a retained interest, at no cost, in a currently drilling 17,000′ exploratory test. This test is located in an area that has had significant gas shows.

Your Company will continue to expend the majority of its energies in the search for additional oil and gas reserves to further enhance our cash flow while becoming a more integrated Canadian natural resource company.



ENCHANT AREA
Alberta, Canada



GRIZZLY AREA
British Columbia, Canada

Trans-Canada Resources

Suite 1980, 1055 West Hastings Street
Vancouver, British Columbia, Canada

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